

TECHNICAL MEMORANDUM

Utah Coal Regulatory Program

#3276
R

June 29, 2009

TO: Internal File

THRU: April Abate, Team Lead / En Sci II / Hydrology
James D. Smith, Permit Supervisor / En Sci III / Task Manager

Caw 7/8/2009

PQH bn 825

FROM: Peter Hess, En Sci III / Engineering / Bond

RE: MIDTERM PERMIT REVIEW, Andalex Resources, Inc., Centennial Project (Apex Mine, Pinnacle Mine, Aberdeen Mine), C/007/019, Task ID # 3276**SUMMARY:**

The Division last reviewed the reclamation cost for the Centennial Project during the 2004 Midterm Permit Review, Task ID # 1985. In 2004, the posted bond amount was \$ 1,080,839. This was reduced to a revised amount of \$ 918,000.

In 2006 and 2007, ten degasification wells, an air shaft and an electrical substation were added to the Centennial surface facilities. The reclamation cost for the site was increased to \$ 1,357,161.00.

The Permittee ceased underground mining activities at the Centennial Project on March 28, 2008, and notified the Division of this on April 1. All equipment has been extracted from the underground workings and the portals have had temporary seals installed (See BLM letter to UtahAmerican Energy, Inc. dated June 20, 2008). The new air shaft in Deadman Canyon has been covered with a concrete cap.

This technical memo will address inadequacies identified by the Division relative to the status of the Centennial Project as part of the mid-term permit review.

TECHNICAL ANALYSIS:

OPERATION PLAN

MINE OPENINGS

Regulatory Reference: 30 CFR Sec. 817.13, 817.14, 817.15; R645-301-513, -301-529, -301-551, -301-631, -301-748, -301-765, -301-748.

SUPPORT FACILITIES AND UTILITY INSTALLATIONS

Regulatory Reference: 30 CFR Sec. 784.30, 817.180, 817.181; R645-301-526.

Analysis:

From 2006 through 2008, Andalex Resources, Inc., permitted and developed eleven degasification wells at the Centennial Project penetrating the underground workings. Due to concerns expressed by MSHA in the Aberdeen workings, the Mine was closed on or about March 28, 2008.

“On June 11, 2008, the Bureau of Land Management (BLM) received from UtahAmerican Energy, Inc., (UEI) a request to modify the approved R2P2 by idling the Mine...and temporarily sealing the mine openings”.

On April 13, 2009, the Permittee notified the Division that the operations at the Centennial Project had been terminated (May, 2008), with no foreseeable plans to resume mining operations. The Mines longwall panels, and portals were sealed, and the ventilation shaft in the right fork of Deadman Canyon was capped.

Degasification Wells

The approved mining and reclamation plan permitted under the State of Utah's R645 Coal Mining Rules states that upon permanent cessation of venting activities, the wells will be plugged and the associated disturbed areas reclaimed. Several of the wells also have commitments associated with them to reclaim the roads which were developed for access to the well sites.

As noted in the April 13, 2009 letter, (which was sent to the Division relative to a request to discontinue raptor monitoring in areas associated with eleven degasification

wells), rights to the vented gas volumes have apparently been transferred to Oso Energy through lease agreements with private landowners and the BLM.

The Permittee states in that letter that Andalex Resources "is no longer operating nor maintaining the GVH's on top of the mountain...Oso Energy has rights to the gas from the holes through lease agreements with private landowners and the BLM. We no longer control the well operations..." "Oso Energy is solely responsible for operating and maintaining the wells"... "have their own access road coming up the backside from the Emma Park..." This was the first notification received by the Division relative to the transfer of well rights to Oso, and it was a permit amendment requesting a discontinuance of raptor monitoring in the areas occupied by the permitted degasification wells.

The discontinuation of annual monitoring for raptors in the areas adjacent to the degasification wells was approved by the Division on June 9, 2009. However, no approval for the transfer of any of the degasification wells for commercial marketing was ever applied for.

The Division understands the Permittee's statement that "Oso Energy is solely responsible for operating and maintaining the wells", **but it does not agree with it.** **The Permittee did not properly notify the Division or follow proper procedures to permit the transfer of the responsibilities associated with the degasification wells at Centennial.** Notification of these activities to the Division was made after all agreements were made by the Permittee, the BLM and other gas right ownership groups. The Division still has regulatory authority over the degasification wells as long as the Mine is still in operation, is in temporary cessation, or is to be permanently sealed.

The Division is willing to consider an amendment to add methane venting and collection to the post mining land use. Andalex should apply for a bond release if another entity has acquired ownership of the wells. It would be the new owners responsibility to complete any permitting requirements necessary in order to continue to vent and collect methane from the Aberdeen wells.

1) Andalex must provide the Division with an update of the status of each well and their potential for future venting. If any of the permitted wells are venting gas for commercial use, the Permittee (Andalex Resources, Inc.) is still responsible for the reclamation of those wells and the access roads associated with them at this time. The Division has bond amounts in place to reclaim the wells. To date, no permit amendment relative to a bond reduction relating to the degasification wells has been received.

Clarification of well status must describe whether a well is venting from a sealed or unsealed longwall panel, whether the well intercepts a gob area or bleeder entries, and if the well would have a future potential use to vent methane to assist the secondary extraction of coal from the mining of future leases.

2) If it is determined that permanent cessation of mining activities at Centennial Project has occurred, and, as certain wells are being allowed to continue to vent methane gas for commercial purposes, the Permittee must provide documentation of an ownership change to the Division . All well transfers must be done in accordance with BLM and MSHA authorization.

If a well has no future use, it must be plugged and any surface disturbance reclaimed.

Mine Portal and Shaft Openings

The BLM letter of June 20, 2008 to the Permittee states that the Permittee was required to submit a drawing / plan of the design for temporary portal seals. The Permittee must provide to the Division a BLM approval for the temporary seal design and confirmation that the approved design was implemented. An MSHA confirmation that the approved temporary seal design was implemented and is in compliance with the sealing plan (R645-301-513.500, R645-301-551, 30 CFR 1711-1, 1711-2) approved by MSHA must be submitted to the Division.

The Permittee must provide to the Division information as to whether the installed temporary seals may at some point be considered as permanent seals, or if the BLM, in concurrence with MSHA, will require the installation of additional permanent seals having an approved MSHA design.

If the Centennial Mine is to be permanently closed, the Division requires that the air shaft in Deadman Canyon be backfilled to the surface with noncombustible material (See R645-301-529.100, Each shaft...permanent closure).

Findings:

In accordance with the requirements of;

R645-301-515.321 Information Required to Obtain Temporary Cessation Status

R645-301-529.100, Permanent Sealing of Underground Openings / Division Management of Openings

R645-301-541.100, Reclamation of all Areas Affected by Coal Mining and Reclamation Activities

R645-301-542.600, Reclamation of Roads Not Retained as Part of Post-Mining Land Use

The Permittee must clarify the status of the Centennial Mine to the Division by one of the following:

- 1) apply for a temporary cessation status (R645-301-515.320, 515.321) and justify approval of that status by informing the Division of future intentions, (i.e., intent to obtain future coal leases) or
- 2) determine and notify the Division that the Mine is permanently closed.

If the Permittee determines that the Mine is to be permanently closed, the Permittee must initiate reclamation activities, which include permanent closure of all mine openings. Other wells venting methane for commercial purposes must be transferred to the State of Utah Oil and Gas regulatory program via proper permitting procedures..

RECLAMATION PLAN

Determination of Bond Amount

Analysis:

In 2006, the Permittee permitted the following additions to the Centennial Project surface facility and utility installations;

- 1) a \$ 56,000 bond in order to ensure reclamation of two degasification wells, (GVH-5B and GVH-8A).
- 2) \$ 65,000 bond for a raise bore shaft inside the Mine disturbed area
- 3) \$ 3,000 for an electrical substation.

In 2007, the Permittee permitted and bonded for eight additional degasification well pads at the Centennial Project at a bond cost of \$ 28,000 each. This additional \$ 224,000 is to cover the eight primary holes only; additional bores were proposed at each pad, and conditional approval was granted by the Division. However, the Permittee never posted additional bonds to cover the plugging of the additional bores. The additional bores were never drilled.

In December 2008, a guard shack was added to the demolition cost increasing it by \$ 200.00.

The required escalated reclamation cost as of 6 /22 / 2009 amounts to \$ 1,362,050.00. The amount of bond posted at this time amounts to \$ 1,520,000.00. Therefore the amount of bond currently posted is adequate to reclaim the Centennial Mine (2013 dollars).

Findings:

The amount of bond currently held by the Division is adequate to reclaim the Centennial surface facilities and degasification wells.

RECOMMENDATION:

The midterm permit review can not be approved until the Permittee provides a status report relative to the developed degasification wells at the Centennial Project.

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